

COGNIZANT TECHNOLOGY SOLUTIONS CORP

Form 10-K

February 19, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL
REPORT
PURSUANT
TO SECTION

13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the fiscal
year ended
December 31,
2018

OR
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)

OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the
transition
period from

to

Commission File Number 0-24429

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3728359

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(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

Glenpointe Centre West
500 Frank W. Burr Blvd. 07666
Teaneck, New Jersey
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (201) 801-0233

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Class A Common Stock, \$0.01 par value per share The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant on June 30, 2018, based on \$78.99 per share, the last reported sale price on the Nasdaq Global Select Market of the Nasdaq Stock Market LLC on that date, was \$45.7 billion.

The number of shares of Class A common stock, \$0.01 par value, of the registrant outstanding as of February 8, 2019 was 575,099,275 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

Overview

Cognizant is one of the world’s leading professional services companies, transforming clients’ business, operating and technology models for the digital era. Our industry-based, consultative approach helps customers envision, build and run more innovative and efficient businesses. Our services include digital services and solutions, consulting, application development, systems integration, application testing, application maintenance, infrastructure services and business process services. Digital services are becoming an increasingly important part of our portfolio of services and solutions and are often integrated or delivered along with our other services. We tailor our services and solutions to specific industries and use an integrated global delivery model that employs customer service teams based at customer locations and delivery teams located at customer locations and dedicated global and regional delivery centers.

Business Segments

We go to market across our four industry-based business segments. Our customers seek to partner with service providers that have a deep understanding of their businesses, industry initiatives, clients, markets and cultures and the ability to create solutions tailored to meet their individual business needs. We believe that our deep knowledge of the industries we serve and our clients’ businesses has been central to our revenue growth and high customer satisfaction. Our business segments are as follows:

- | | | | |
|--------------------|-----------------|-------------------------------|--------------------------------------|
| Financial Services | Healthcare | Products and Resources | Communications, Media and Technology |
| | | • Retail and Consumer Goods | |
| • Banking | • Healthcare | • Manufacturing and Logistics | • Communications and Media |
| • Insurance | • Life Sciences | • Travel and Hospitality | • Technology |
| | | • Energy and Utilities | |

Our Financial Services segment includes banking, capital markets and insurance companies. Demand in this segment is driven by our customers’ focus on cost optimization in the face of profitability pressures, the need to be compliant with significant regulatory requirements and adaptable to regulatory change, and their adoption and integration of digital technologies, including customer experience enhancement, robotic process automation, analytics and artificial intelligence in areas such as digital lending and next generation payments.

Our Healthcare segment consists of healthcare providers and payers as well as life sciences companies, including pharmaceutical, biotech and medical device companies. Demand in this segment is driven by emerging industry trends, including enhanced compliance, integrated health management, claims investigative services, as well as services that drive operational improvements in areas such as claims processing, enrollment, membership and billing, in addition to the adoption and integration of digital technologies, such as artificial intelligence, personalized care plans and predictive data analytics to improve patient outcomes.

Our Products and Resources segment includes manufacturers, retailers, travel and hospitality companies, as well as companies providing logistics, energy and utility services. Demand in this segment is driven by our customers’ focus on improving the efficiency of their operations, the enablement and integration of mobile platforms to support sales and other omni channel commerce initiatives, and their adoption and integration of digital technologies, such as the application of intelligent systems to manage supply chain and enhance overall customer experiences.

Our Communications, Media and Technology segment includes information, media and entertainment, communications and technology companies. Demand in this segment is driven by our customers’ need to manage their digital content, create differentiated user experiences, transition to agile development methodologies, enhance their networks and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products.

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For the year ended December 31, 2018, the distribution of our revenues across our four industry-based business segments was as follows:

See Note 3 to our consolidated financial statements for additional information related to disaggregation of revenues by customer location, service line and contract-type for each of our business segments.

Services and Solutions

Our services include digital services and solutions, consulting, application development, systems integration, application testing, application maintenance, infrastructure services and business process services. Additionally, we develop, license, implement and support proprietary and third-party software products and platforms for the healthcare industry. Digital services and solutions, such as analytics and artificial intelligence, digital engineering, intelligent process automation, interactive and hybrid cloud, are becoming an increasingly important part of our portfolio of services and solutions. In many cases, our customers' new digital systems are built upon the backbone of their existing legacy systems. Also, customers often look for efficiencies in the way they run their operations so they can fund investments in new digital capabilities. We believe our deep knowledge of their infrastructure and systems provides us with a significant advantage as we work with them to build new digital capabilities and apply digital technologies to make their operations more efficient. We deliver all our services and solutions across our four industry-based business segments to best address our customers individual needs.

We seek to drive organic growth through investments in our digital capabilities, including the extensive training and re-skilling of our technical teams and the expansion of our local workforces in the United States and other markets around the world where we operate. Additionally, we pursue select strategic acquisitions, joint ventures, investments and alliances that can expand our digital capabilities or the geographic or industry coverage of our business. In 2018, we completed five such acquisitions: Bolder Healthcare Solutions, a provider of revenue cycle management solutions to the healthcare industry in the United States; Hedera Consulting, a business advisory and data analytics service provider in Belgium and the Netherlands; Softvision, a digital engineering and consulting company with significant operations in Romania and India that focuses on agile development of custom cloud-based software and platforms for customers primarily in the United States; ATG, a United States based consulting company that helps companies plan, implement, and optimize automated cloud-based quote-to-cash business processes and technologies; and SaaSfocus, a Salesforce services provider in Australia.

We have organized our services and solutions into three practice areas: Digital Business, Digital Operations, and Digital Systems and Technology. These practice areas are supported by Cognizant Consulting, our Global Technology Office and Cognizant Accelerator.

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Cognizant Digital Business

Our digital business practice helps customers rethink their business models, working with customers to reinvent existing businesses and create new ones by innovating products, services, and experiences. Areas of focus within this practice area are digital strategy, artificial intelligence and analytics, connected products, interactive user experiences and digital engineering that builds next-generation applications and experiences at speed and scale. These services are often delivered along with our application development, systems integration and digital services.

Cognizant Digital Operations

Our digital operations practice helps customers rethink their operating models and modernize their business operations by re-engineering and managing their most essential business processes resulting in lower operating costs, better employee and customer outcomes and improved top-line growth. Areas of focus within this practice area are intelligent process automation, industry and platform solutions and enterprise services. We have extensive knowledge of core front office, middle office and back office processes, including finance and accounting, procurement, data management, and research and analytics, which we integrate with our industry and technology expertise to deliver targeted business process services and solutions. Our highly specialized domain expertise is important in creating industry-aligned solutions for our customers' needs in areas such as clinical data management, pharmacovigilance, equity research support, commercial operations and order management.

Cognizant Digital Systems & Technology

Our digital systems and technology practice helps customers reshape their technology models to simplify, modernize and secure the enabling systems that form the backbone of their business. Areas of focus within this practice area include system integration services, infrastructure services (including cloud), quality engineering and assurance, and security and application services. Our application services include traditional development, testing and maintenance and agile development of new software and applications that transform existing businesses at speed and scale.

Cognizant Consulting, Global Technology Office, and Cognizant Accelerator

Supporting our three practice areas, the Cognizant Consulting team provides global business, process, operations and technology consulting services to our customers. Our consulting professionals and domain experts from our industry-focused business segments work closely with our practice areas to create frameworks, platforms and solutions that customers find valuable as they pursue new efficiencies and look to leverage digital technologies across their operations. Our Global Technology Office and Cognizant Accelerator focus on utilizing new technologies to develop innovative and practical offerings for customers' emerging needs and support our business segments and practice areas.

Global Delivery Model

We utilize a global delivery model, with delivery centers worldwide, to provide the full range of services we offer to our customers. Our global delivery model includes four distinct delivery methods, with most customer engagements utilizing several or all of these delivery methods. Our global delivery model includes employees located in the following locations: customers' sites, local or in-country delivery centers, regional delivery centers and offshore delivery centers. As we scale our digital services and solutions, we are focused on hiring in the United States and other countries to expand our in-country delivery capabilities. Our extensive facilities, technology and communications infrastructure are designed to enable the effective collaboration of our global workforce across locations and geographies.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our global headquarters and business development offices, which are strategically located around the world. The sales and marketing group works with our customer delivery team as the sales process moves closer to a customer's selection of a services provider. The duration of the sales process may vary widely depending on the type and complexity of services.

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Customers

The services we provide are distributed among a number of customers in each of our business segments. A loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, the services we provide to our larger customers are often critical to their operations and a termination of our services would typically require an extended transition period with gradually declining revenues. The volume of work performed for specific customers is likely to vary from year to year, and a significant customer in one year may not use our services in a subsequent year. Revenues from our top customers as a percentage of total revenues were as follows:

	For the		
	years ended December 31,		
	2018	2017	2016
Top five customers	8.6 %	8.9 %	10.0